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Caving in Under Price Pressure? Four Ways to Stop Margin Erosion

By Jeff Thull

What do you do when faced with a potential client who insists on a discount? Even though your service is worth every cent you're asking, you *also* know that an army of competitors is ready to cut prices and do whatever it takes to make the sale.

Being forced to cave in on price is frustrating. When faced with a client determined to go with the lowest bidder, winning the sale "at whatever cost" is tempting. If you play the price game, though, you will ultimately cut into your profits, allow commoditization of your valuable solutions, and watch margins erode. If salespeople are cutting a few percentage points off the price to make the sale, they are already failing their company.

To remedy discounting, implement an integrated, cross-functional approach to development and delivery of compelling solutions. If you transition into this kind of solution provider, the desperate game of low bidding becomes history. So how can you ensure that your salespeople won't cave in on price and compromise margins and profitability? What can you do to prevent margin erosion at the point of sale? Here are four key tips:

1. Make sure your salespeople know the value of your products and services and how that value links to the client's business situation. This is the key to creating value and is at the heart of selling with integrity and credibility. A salesperson must understand the strategic, operational, and financial impact of the proposed solution on the client's business.

If this sounds like a lot of work, it is. I like to tell my clients that spectacular success is always preceded by unspectacular preparation. Understanding the client's critical issues, dissatisfactions, and frustrations, plus recognizing the business opportunities that arise from them, takes research, time, commitment, and dedicated work.

2. Make sure your people can help the client calculate the cost of the absence of your solution. Before a salesperson can offer a remedy, he must help the client identify the physical symptoms of his problem and show him what parts of the business are suffering. Remember, if there is no perceived lack of value—no "measurable discomfort"—there will be no sale.

Pain is the most basic human motivator for change. It is the natural defense mechanism that tells people that if they don't change and deal with a problem, they will face consequences. And of course, change itself is painful. Therefore, change will not occur until an individual or company recognizes that the pain of change is less than the pain of staying the same.

3. Make sure salespeople can articulate why the value of the proposed solution exceeds anything offered by the closest competitors. We're talking specific figures here, not common

and vague generalities. A salesperson must be able to pre-empt all but the most irrational objections. If he can get the client to recognize that the service will provide a specific financial impact, such as cutting the cost of a critical process or increasing revenue, she will surely realize why the pricing makes business sense.

4. Link salespeople's compensation to profit, not gross revenue. One of the major reasons that salespeople give discounts is because it pays off for them personally. If a salesperson's compensation is based on gross revenue rather than net margins, he will see little negative impact if he gives the client a 10 percent discount. That discount may mean the difference between "winning a sale" and "no sale." But if that 10 percent discount causes your profit margin to decline by 100 percent, what are you really winning?

Your compensation strategy should make selling about "winning big"—not just winning.

When organizations use discounts as a way to grab sales, it often means they don't believe they can control their sales organization. Companies have established very sophisticated processes and controls in their operations, but waffle when it comes to applying the same expertise to their sales strategy.

When a client says, "Your price is too high," the salesperson needs to realize that there are two potential problems to resolve. First, the client may not be experiencing a significant absence of value, so the price is considered too high. Or the absence of value is there and the client does not recognize it. In either case, the burden of proof is on the salesperson.

There's one more critical point to consider. Your salespeople must get over that burning desire to get the sale at any price. Not every sale is a good one, and not every client is right for you.

Salespeople must not only be comfortable with hearing "no," they must actually go for the no and move on to more profitable opportunities. When all possibilities for "no" are eliminated, all that's left is a confident yes—from a client who's willing to pay a fair price. That's the recipe for strong and profitable margins.

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Jeff Thull is President and CEO of Prime Resource Group, and a thought leader in the area of sales and marketing strategies for companies involved in complex sales. He's the author of the bestsellers, [*Mastering the Complex Sale*](#) and [*The Prime Solution*](#). For more information, visit www.primeresource.com.

Read our other articles by Jeff Thull, [How to Prevent Unpaid Consulting](#) and [The Best Kept Secret of the Selling World](#).

Also, *Management Consulting News* interviewed Jeff Thull twice. Read [Jeff Thull discusses why solution selling fails](#); and [Jeff Thull on the sales strategies of top-performing consultants](#).